

IN THE MATTER OF the *Ontario Energy Board Act 1998*, S.O. 1998, c.15 (Schedule B);

AND IN THE MATTER OF an Application by Union Gas Limited for an order or orders amending or varying the rate or rates charged to customers as of July 1, 2007.

**INTERROGATORIES OF
INDUSTRIAL GAS USERS ASSOCIATION ("IGUA")**

1. Please provide a breakdown of the "Cost to provide service" shown in lines 2 and 5 of Table 3 at page 11 of Ex.A, Tab 1, for each of the columns in the Table, with the cost to be broken down between the "costs of owning and operating the storage facilities, including depreciation, interest, income taxes and the allowed return to the shareholder" described at Ex. A, Tab 1, page 10, lines 6 to 8.
2. Please revise the cost breakdown provided in response to the previous question to exclude any and all amounts that pertain to deferred income tax expense and, in particular, the deferred income tax expense of \$10.524M described at page 10, line 14 of Ex.A, Tab 1 and the grossed-up amount thereof of \$16.475M described at page 14, line 25 of Ex.A, Tab 1.
3. Please revise Table 3 at Ex.A, Tab 1, page 11 to eliminate any and all deferred income tax expense therefrom. In the event that the total "Variance" of \$16.299M shown in column 1 of line 7 of Table 3 in the revised Table 3 does not increase by \$16.475M, (the grossed-up amount attributable to deferred income taxes) to \$32,744M, then please explain why.
4. Please show the extent to which Union's after tax Actual Earnings for 2006, subject to earnings sharing, before weather normalization of \$98.023M shown at Ex.A, Tab 1, page 24, line 19, and after weather normalization of \$117.936M shown at Ex.A, Tab 1, page 27, line 6, as well as the earnings amount payable to ratepayers of \$12.579M shown at Ex.A, Tab 1, page 27, line 9 increases, if there is no recording in Union's 2006 Financial Statements of deferred taxes allegedly attributable to the Board's NGEIR Decision.
5. Please revise Ex.A, Tab 2, Schedule 1 entitled "Allocation of 2006 Deferral Account Balances and 2006 Earnings Sharing to Rate Class" to reflect the elimination of any and all deferred taxes allegedly attributable to the Board's NGEIR Decision from Union's 2006 Storage Revenue Deferral Accounts and the 2006 Earnings Sharing amount payable to ratepayers.
6. It is IGUA's position that the portion of the Board's NGEIR Decision which characterized Union's ex-franchise storage business as a non-utility line of business was never intended to affect the ratepayers' share of 2006 Storage Revenue Deferral Accounts, nor their share of Union's 2006 Normalized Earnings. To obtain an estimate of the impact on Union's shareholder of a Board Decision refusing Union's attempt to recover, from Union utility ratepayers,

deferred taxes allegedly attributable to a Board-determined non-utility line of business having an effective date no earlier than January 1, 2007, IGUA seeks the following:

- (a) Production of that part of Ex.B, Tab 3, UGL Undertaking K.2.2 in the NGEIR proceedings showing that, in the end-state it was proposing, Union would earn \$44.530M of additional revenue (based on a 2007 forecast) and an adjusted ROE of 86.41%. A copy of UGL Undertaking K.2.2 is attached. IGUA understands that the current price for market-based storage is considerably higher than that originally forecast by Union.
 - (b) Please revise the revenues, costs, and return on rate-base calculation for ex-franchise storage services provided above to reflect the end-state of the Board's NGEIR Decision with respect to "non-utility" storage revenues, costs, assets and the higher forecast prices for market-based storage.
7. At Ex.A, Tab 1, pp. 17-19 of 29, and pp. 22-23 of 29, Union seeks to clear LRAM and SSM amounts attributable to unaudited 2006 DSM activities. Please confirm that Union has not previously cleared LRAM or SSM amounts prior to finalizing those DSM-related balances through the audit of Union's annual DSM Evaluation Report, its review by the Audit Sub-Committee and its approval by the DSM Consultative. If Union has previously cleared unaudited DSM-related balances, then please detail the circumstances under which those balances were cleared.
 8. At Ex.A, Tab 1, p.19 of 29, Union indicates that the clearing of unaudited LRAM balances is "consistent with the desire of parties to dispose of deferral account balances in a timely manner". At Ex.A, Tab 1, p.23 of 29, Union states that in an effort "to recognize the desires of parties to move to a more timely disposition of deferral account balances", Union proposes to clear the recorded SSM balance related to unaudited 2006 DSM activities. Has any party requested that Union dispose of the deferral account balances relating to LRAM and SSM prior to completion of the audit of Union's DSM Evaluation Report, its review by the Audit Sub-Committee and its approval by the DSM Consultative? If so, please provide details of such requests.

Dated at Ottawa, Ontario, this 24th day of May, 2007.

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UNION GAS LIMITED

Undertaking of Steve Baker
To Peter Thompson

The company will perform a calculation of the costs of capital in the 30 cents shown in undertaking U.16 from the technical conference in this hearing.

As a result of the EB-2005-0520 Settlement Agreement, the cost based storage rate will be approximately 30 cents/GJ which is made up as follows:

	<u>Cents/GJ</u>
Return – Equity	5
Debt & Preference Shares	7
Income Tax	2
Capital & Property Tax	1
Accumulated Deferred Tax Drawdown	(1)
Depreciation	6
O&M	<u>10</u>
Total	<u>30</u>

In Union's view the storage market in and around Ontario is competitive and the Board should refrain from regulating rates for ex-franchise storage services. To refrain from the regulation of rates pursuant to Section 29, it is Union's view that this would require all revenues and costs associated with competitive services to be outside of regulation. As such, the calculation of return on rate base would no longer be meaningful or appropriate.

However, if 2007 forecast revenues and costs were used to complete a return on rate base calculation for ex-franchise storage services the following would be the result. Union notes that storage services are valued by the market, largely based on seasonal natural gas commodity pricing spreads which fluctuate widely from year to year. The revenues forecast for 2007 represent a point in time estimate of storage service values. As seasonal natural gas commodity pricing spreads change so will the value of storage services. Union also notes that the rate base associated with ex-franchise storage services in 2007 reflects depreciated assets that were developed years ago.

Witness: Steve Baker
Question: June 20, 2006
Answer: June 26, 2006
Docket: EB-2005-0551

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Rate base – ex-franchise storage	102,916
Equity component @ 36%	37,050
Return @ 9.63%	3,568
Add \$44.5 million additional revenue	44,530
Less tax @ 36.12%	(16,084)
Adjusted net income	32,014
Adjusted return on equity	<u>86.41%</u>

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